

Unrelated trade or business; trade association; language translation service. A language translation service provided by an exempt trade association that promotes and develops trade relations between business entities located in the U.S. and the government of a foreign country is unrelated trade or business within the meaning of section 513 of the Code.

ISSUE

Under the circumstances described below, does the operation of a language translation service by an organization exempt from federal income tax under section 501(c)(6) of the Internal Revenue Code constitute unrelated trade or business within the meaning of section 513?

FACTS

The organization is a trade association that is exempt from federal income tax under section 501(c)(6) of the Code. Its purpose is to promote and develop trade relations between business entities located in the United States and the government of a particular foreign country. Membership is composed of corporations and other business entities located in the United States that conduct or plan to conduct business in the foreign country.

As its primary activity, the organization coordinates trade activities with departments and agencies of the United States government and with the trade council of the government of the foreign country through which trade relations are conducted. The organization arranges trade missions, trade fairs, related exhibitions, and the general exchange of relevant economic information.

In addition, for a fee, the organization provides a language translation service for the translation of business materials into the language of the foreign country. The materials include technical brochures, business cards, annual reports, films, and other audio-visual presentations that explain and promote the products of the business entities. This service is available to both members and nonmembers, who are charged the same amount for the same services. The service is provided for the commercial benefit of the particular business concerns that use it.

The organization translates the material with specialized dictionaries, and provides calligraphic copying and proofreading. Performing the translation service requires a high degree of expertise that is not readily available elsewhere.

LAW AND ANALYSIS

Section 501(c)(6) of the Code provides for exemption from

federal income tax of business leagues not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations provides that a business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a business ordinarily carried on for profit. The activities of the business league should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

Section 513(a) of the Code defines the term "unrelated trade or business" as any trade or business the conduct of which is not substantially related (aside from the need of an organization for income or funds or the use it makes of the profits derived) to the exercise or performance by an organization of the purposes or functions constituting the basis for its exemption under section 501.

Section 1.513-1(d)(2) of the Income Tax Regulations provides that a trade or business is "related" to exempt purposes, in the relevant sense, only where the conduct of the business activities has a causal relationship to the achievement of exempt purposes (other than through the production of income); and that it is "substantially related," for purposes of section 513 of the Code, only if the causal relationship is a substantial one. Thus, for the conduct of trade or business to be substantially related to purposes for which exemption is granted, the performance of the services from which the gross income is derived must contribute importantly to the accomplishment of those purposes.

Rev. Rul. 68-267, 1968-1 C.B. 284, concerned an association of retail food merchants, which was exempt from federal income tax under section 501(c)(6) of the Code. As a part of its activities, and in order to raise income, the organization regularly carried on a coupon redemption service for its members for a fee. The redemption service did not contribute importantly to the promotion of the common business interest, and was thus held to constitute unrelated trade or business within the meaning of section 513.

Rev. Rul. 73-386, 1973-2 C.B. 191, also concerned a business league described in section 501(c)(6) of the Code that was held to be conducting unrelated trade or business within the meaning of section 513. The activity in question was the providing, for a fee, of job injury history reports on prospective employees to members and nonmembers. Although the reports were purported to be unavailable on an expedited basis from any other source, the service conducted by the organization went beyond the promotion of its exempt purpose of developing and promoting efficient business practices of the business community as a whole. Rather, it was held to constitute the regular operation of a business service of a commercial nature for individual business concerns, and

therefore unrelated trade or business.

The service conducted by the organization in this case does not contribute importantly to the development and promotion of efficient business practices in respect to the business community as a whole. Instead, it is the regular operation of trade or business for the benefit of individual business concerns. The fact that the service requires a high level of expertise that is not readily available elsewhere does not alter its commercial nature or the fact that the service relates to individual business needs of the business concerns involved. The operation of the translation service constitutes unrelated trade or business within the meaning of section 513 of the Code.

HOLDING

A language translation service provided in the manner described above by an organization exempt from federal income tax under section 501(c)(6) of the Code is unrelated trade or business within the meaning of section 513.